"CSB Bank Limited
Q1 FY2025 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to CSB Bank's Q1 FY25 Earnings Conference Call hosted by YES Securities.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Shivaji Thapliyal from Yes securities. Thank you and over to you, sir.

Shivaji Thapliyal: Thank you, Yusuf. Good evening and a warm welcome to all those who have joined the Call.

The CSB Bank management is represented by Mr. Satish Gundewar – Chief Financial Officer, and Mr. B. K. Divakara – Executive Director. Mr. Pralay Mondal, MD & Chief Executive Officer could not join the call due to health issues. In his absence, Mr. Gundewar will be leading the call.

We specifically thank the Management of CSB Bank for giving YES Securities the opportunity to host their result call. The management will first be making some opening remarks, after which we will throw the floor open for questions.

I now invite the management to make their opening remarks. Satish, over to you.

Satish Gundewar: Thanks, Shivaji and good evening to everyone who has joined the call. Pralay wanted to be part of this call; but could not join this call due to health reasons and he has apologized to all the investor community.

I will be making certain opening remarks about the economy - the market that we are operating as well as some of the key numbers for the quarter and then we will open the call for question and answers.

The global economy is currently witnessing the changes in political leadership in major economies of the world. UK and France have already seen a change in leadership, whereas India has chosen a continuation, albeit as a coalition government. With Mr. Biden, withdrawing from contesting again, US is also poised for a close contest. We have seen rate cuts in Eurozone and lowering of inflation globally. We do not expect US to cut rates anytime soon. However, a start of rate cut cycle cannot be ruled out in year 2024.

Coming to domestic market overview, the fact that systemic liquidity moving back to surplus is a welcome change. It has reduced the stress in the short-term money market, thus lowering the short-term rates. The systemic credit growth is still robust and we do not expect the chase for deposits to abate. However, the surplus liquidity, if it persists for a couple of more months, will prevent the deposit rates from going up any further. The monsoon has begun well though the rainfall distribution is not symmetric across India. It gives us hope that the inflation will continue to ease. The fiscal deficit path towards 4.5% augurs well for the country and the financial markets. The overnight rates will remain between 6.5% to 6.75% and 10 year is likely to range between 6.8% to 7.05% this quarter.

Now coming to highlights of our performance:

Profitability:

The Bank reported a net profit of Rs. 113 crores. The Bank is holding a provision buffer of about Rs. 182 crores over and above the regulatory requirements. Net interest margin was 4.36% for the quarter, impacted by higher cost of funds and regulatory guidance on penal charges. Return on asset was at 1.27%.

Liabilities:
We are improving our deposit base. Deposit growth has been 22% year-on-year as against the industry growth of around 11%. The CASA ratio stands at 24.9%.

Advances:
We had a net advance growth of 18% year-on-year, whereas industry has grown at about 14% year-on-year. Gold portfolio registered a growth of 24% year-on-year. Yield on advances for Q1 FY25 was at 11.25% with an improvement of 7 bps from Q1 FY24.

Asset Quality:
Gross NPA ratio was at 1.69%. Net NPA ratio was at 0.68% and provision coverage ratio at 82.53%. We are continuing with the accelerated NPA provisioning policy of providing higher than RBI requirements and are holding the contingency provisions intact.

Robust capital base:
We have a very robust capital base. Our capital adequacy ratio continues to be strong at 23.61% with a tier one ratio of 22.23%. We have a very low proportion of risk-weighted assets compared to the industry. The RWA to our exposures is very limited to about 43% to 44%.

Value Creation:
In terms of the shareholder value creation, our book value per share as at the end of this quarter is Rs 217. Earnings per share was Rs 26.2 and return on equity was at 12.69%.

Distribution:
We have a network of 794 branches and 757 ATMs as on 30th June. During this quarter, we have added 15 branches. We will continue with our branch expansion plans on a moderate scale this financial year. This expansion targets to further the pan India presence and reduce the concentration risk.

The quarter gone by was somewhat a soft quarter. On the deposit front, cost continued to be at elevated levels. The signs of policy rate reduction are clear now and it is anticipated that the cost of funds will level off in the coming quarters. On the advances, regulatory guidance on penal charges and a couple of slippages has impacted the yields. The elevated costs and reduced yields resulted in NIM compression during the quarter. The quarter also witnessed continued investments for supporting the build phase. However, the other income growth helped to offset this partially. We have done a detailed analysis of the numbers and required efforts are made to deliver consistently in line with the stakeholder expectations. We believe that the cost to income, GNPA, NNPA and credit cost ratios have peaked out as of now and net interest margin will go back to the trajectory upwards of 4.5% and ROA upwards of 1.5% from Quarter 2 onwards. We should be able to deliver a much better Quarter 2 performance and overall year should be in line with our past commentary. The build phase is progressing on the expected lines and executing this right will help us to initiate the scale phase and achieve the SBS 2030 vision set for the Bank.

Now we can open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. First question is from the line of Mona Khetan from Dolat Capital. Please go ahead.

Mona Khetan: Firstly, on the cost of funds, we saw interest expenses increasing by about 15% Q-on-Q and within term deposits, the share of bulk has been on the rise consistently over the last one year, much higher than what we are seeing for industry. So, how do you look at this cost of deposit profile?

Satish Gundewar: Let me give a little background in terms of the composition of our deposits. In the savings account, almost 90% and in the term deposits, about 65% are retail granular deposits which are less than Rs. 3 crores. On an overall deposit basis, we will have around 25%-26% bulk deposit share and rest will be granular. These term deposits will go through repricing. As we mentioned in our opening remarks, the liquidity was tight throughout the last couple of months, which had an impact on the cost of deposit and we have seen this across the industry as well. To augment our funding base, we have been availing refinance. We have raised funds through overseas borrowings so that our growth is not impacted. From that perspective, our overall cost of funds is still reasonable and our overall cost of SA is in the range of 3%. These measures help us in maintaining our overall cost of funds.

Mona Khetan: Sure. So, we earlier were guiding for margins of 4.5%-5%. Where does that stand now with the impact on cost of funds that we are seeing?

Satish Gundewar: Last year, when we were giving commentary to the investors, we had said that the current year's guidance in terms of the net interest margin would be in the range of 4.5% to 4.8%. Thanks for asking the question, because that will be a question in quite a few people's minds. I think I should clarify on that. NIM was impacted during this quarter on account of multiple things; one was the regulatory change in terms of the penal interest. Now the interest, which was collected as penal interest and part of the gross interest income, has gone to fee income as penal charges. We have seen marginal reduction in our overall SMA book. To that extent, the incidence of penal interest/charges also came down. Almost 40 bps kind of an impact has happened on account of this regulatory change, this quarter. This was implemented from 1st of April 2024. The other impact was in terms of marginally higher slippages, which resulted in interest reversal on those accounts, which is covered in terms of our increased GNPA ratio. Cost of funds - for the industry as well as for us, has seen an increased trajectory. However, our overall guidance for the full year remains intact. We will be closing the year in line with the guidance that we have given in the earlier quarters -which overall NIM will be in the range of 4.5% to 4.8%.

Mona Khetan: How about the ROA? If I remember it right, the earlier guidance was between 1.5% to 1.8%. Does that change with slightly lower margins here?

Satish Gundewar: In my opening remarks, what we said is that parameters in terms of cost to income ratio, GNPA, NNPA, credit cost etc seem to have peaked out for us in the first quarter itself and we will see a better trajectory from Q2 onwards. Overall, full year guidance remains intact. The ROA will be in the range of 1.5% to 1.8% -in sync with the guidance that we have been giving during last year. We will have an improved net interest margin from Quarter 2 onwards. If you look at our fee performance for last 3 to 4 or at least 5 quarters - what we have seen is a very robust performance. Even for this quarter, fee is contributing at almost 1.92% of my average assets, which is very good number to have. Overall, full year guidance remains intact - ROA will be in the range of 1.5% to 1.8%.

Mona Khetan: Sure. And just lastly, what is our LCR currently and what is the impact from the changes in the recent guidelines by RBI?

Satish Gundewar: For the quarter, our average LCR was about 118%. The guidelines, of course, will apply to the entire industry as well as to us, but ballpark at least 10% impact will be there on the LCR. We still have a lot of time to take corrective measures. These guidelines will be implemented from 1st of April next year. Most of the banks will have some impact, but we have at least 3 quarters to work on that.

Mona Khetan: And just on the slippage as well, so if you could just give some color as to what were these and if there was any large size exposure on the corporate side or anything, yes?

Satish Gundewar: On the slippages, we had a handful of accounts in the SME segment, which slipped during this quarter and one account in the corporate banking. We have explained earlier also that this financial year, there will be a complete rejig of the entire corporate banking business for us and we will be looking at all the exposures that we have. We are exiting not only the accounts, which are not good but even standard accounts thinking from a coverage perspective, relationship management perspective, comfort point of view etc. This year will be kind of a complete rejig of the corporate banking portfolio and probably on the corporate banking book, we will be flat as compared to last year. If you see, two years back we did a similar rejig in our SME business also. We exited few legacy accounts that we had and now if you see our SME trajectory for last 2 to 3 quarters - we have been delivering good growth. Even this year first quarter, it has grown by 28%. Our expectations for full year is - SME will show a growth of almost 35% over last year. Same thing we can expect going forward from the next financial year for corporate book. This year will be largely a cleanup year for the corporate banking and from next year, we will see a steady growth there as well.

Mona Khetan: And what is the size of this corporate slippage? I mean, last quarter the one corporate slippage was about Rs. 70 crores. So, if you could just let us also know what the quantum of the corporate slippage was?

Satish Gundewar: I think the overall slippage for the quarter as in the investor presentation is about Rs. 100 odd crores. Some slippages happened in the Agri and MFI portfolio as well, which is again an industry wide phenomenon. Then a handful of accounts in SME and one account in corporate banking. It is a mix of all.

B. K. Divakara: Rs. 33 crores, is the highest slippage what we had witnessed.

Mona Khetan: This quarter?

B. K. Divakara: Yes. Of the 103 Cr slippages, that is the only major account. Rest are all combination of so many other accounts in various segments.

Moderator: Thank you. Next question is from the line of Pruthul Shah from Anubhuti Advisors. Please go ahead.

Pruthul Shah: My question was with respect to the NIM. On the QoQ basis, we are seeing a dip of 50 bps and as per your commentary, 40 bps out of that is attributed because of the penal charges decategorization. So, is this understanding correct? Broadly, because of the actual yield on advances, there is only 10 bps dip for this quarter?

Satish Gundewar: 40 bps impact is on account of this regulatory change and there was interest reversal because of the slippages during the quarter. On a like-to-like basis, we would actually have marginal improvement in the gross yields on the portfolio. However, because of these two factors, the gross yield has seen a dip and that has impacted the NIM. If you remove these one-offs - the gross yields would be largely flat to positive.

Pruthul Shah: And sir, with respect to one account which became NPA and we have I think provided 25% in the last quarter. As per your commentary on last quarter, we are hopeful to get resolved within FY25. So, is there any update with respect to that specific account in this quarter?

Satish Gundewar: Generally, we do not provide specific customer or client updates. The efforts in terms of recovery is happening on an ongoing basis and of course, we have security in our hand.

Moderator: Thank you. Next question is from the line of Parag Jariwala from White Oak Capital. Please go ahead.

Parag Jariwala: Regarding the slippages of Rs. 100 odd crores, I mean, if I just see the annualized slippage ratio is around 1.7%. I know you did mention that being a fourth quarter and also some problems with microfinance and all, some of the agri and microfinance, you did see some of the slippages with respect to those sectors, but how should we see this Rs. 100 crores in the overall context? I mean for the quarters to come by. I mean are we expecting some recoveries out of there or what is built into our annualized slippage for the remaining quarters and the corresponding credit cost for the full year?

Satish Gundewar: If you see the slippages of the last quarter as well as this quarter, we are seeing elevated slippages. If we go back couple of quarters, our slippage ratio was less than 1% on an annualized basis. Only for the last two quarters, we have seen elevated slippages and going forward, we do not expect slippages at these levels. In terms of the recovery, we have a large pool of written down accounts for which we see recovery every quarter and we see that momentum picking up from Q2 onwards. That will also help us in terms of the overall credit cost. In spite of these elevated slippages and provisioning that we have done, our credit costs for the quarter was only 22 -24 bps. Overall credit cost for the year will be in the range of 20 to 30 bps. To that extent, because of 1 or 2 quarters, it has not really altered the overall story.

B.K. Divakara: Even if the credit cost is reckoned, it is based on the accelerated policy ie, providing more than what is required to be provided as per RBI guidelines. If you are going strictly as per RBI norms, then it could have been still lower than this.

Parag Jariwala: Regarding the slippage, you also mentioned that the largest account is around Rs. 33 odd crores. So, are these kind of technical in nature like, in first quarter you see some bit of higher delinquency in the second, third quarter probably there are chances of recovery or upgradation and all. Or you will take them as a one-off for a normal course of business and there won't be any meaningful upgrades in the quarters to come by?

Satish Gundewar: I would say that on a normalized basis, you would not see these kind of slippages and the slippages will come down. This would also be reflected in the overall credit costs going from Q2 onwards. As I said, right from the Q4 of last year plus the current financial year first quarter, we are doing a rejig of the entire corporate banking book and maybe it is the result of that exercise. I would say that it is one off and we cannot say that this is the trajectory going forward. I would say these two quarters have been one-off.

B. K. Divakara: It is an aberration only and it is expected to get rectified during the course of the year. No major accounts are under threat even as per our SMA portfolio analysis.

Parag Jariwala: And these changes in corporate book and all which we are trying to do for last two quarters. Is this fully done now or it is an ongoing process currently as well, so can there be a surprise in second, third quarter?

Satish Gundewar: In the corporate banking, the entire DA book will have a dip this FY. In March '24, we had almost Rs. 900 crores of DA book, which is in a downward trajectory. Incrementally, we are not doing any DA transactions. On a year-on-year basis, we will have a flat corporate banking book, but I do not think that there will be any major surprises going forward.

Moderator: Thank you. Next question is from the line of Suraj Das from Sundaram Mutual Fund. Please go ahead.

Suraj Das: Just a couple of questions. One again, going back to cost of fund, cost of deposit trajectory, I think last quarter you had guided that 10-15 basis point would be the increase from last quarter and then that would be the peak. However, this quarter we have seen probably more than 20 basis point increase and I think till last quarter you were also publishing this savings account cost and term deposit cost. Therefore, it looks like your term deposit cost is something like more than 7%. So, my question is if I see your term deposit offering, maybe only couple of buckets have more than 7% card rate. So, would it be fair to assume that whatever incremental deposits are getting mobilized would be in those buckets only?

Satish Gundewar: We have changed the format of our investor presentation. Probably that is the reason it is not visible now. Savings cost, which is in the range of 3%, did not change materially. The overall CASA book is largely flat. In terms of term deposit, if you see most of the deposit that we get will be in that 12 to 18 months kind of a range. Largely it will be at that kind of a card rate. However, if you look at the overall deposit structure, almost 25%-26% will be bulk deposits that is more than Rs. 3 crores and 74%-75% will be granular deposits. Of course, we participate in the bulk deposit market as well and that you can see for other banks as well. From a funding perspective, we have been also using refinance because quite a few of our portfolio becomes eligible for refinance and in refinance the kind of rates that we get - they are CRR, SLR free and cost efficient money and we are using that. We are also using avenues like FCY borrowing and converting into INR at attractive rates. In the last 12 months, we have mobilized almost Rs. 1000 crores through FCY borrowings. Same thing goes for CD as well. We have borrowed CD during the year and have a book of close to Rs. 900 crores at quarter end. We have multiple sources of funding and to that extent; we are able to manage the overall cost of funds much better I would say.

Suraj Das: Sure. These special schemes are like 401 days or 750 days. You want to continue these schemes given that probably cost of deposit is peaking and there could be no rate cut somewhere 6-9 months down the line?

Satish Gundewar: We are managing that effectively. Our general objective is not to lock ourselves in a very long-term kind of a borrowing or long-term deposits, and it is managed based on the requirement at each point in time. We will never be borrowing for a very long period and locking ourselves in higher cost deposits.

Suraj Das: Sure. And last question sir, on the OPEX side, was there any one-off in the staff cost? And the second question would be this other OPEX has seen QoQ jump and as well as YoY, so is this the normal trajectory now given that we are continuously investing in the franchisee. So, yes that will be my last question. Thanks.

Satish Gundewar: This year, there is not much of a one-off in the staff cost. However, from the OPEX side, I will like to address that in 2-3 fronts. Last year, we opened 76 branches, this quarter also we opened 15 branches and when we open branches, there will be CAPEX involved in terms of furnishing that is capitalized. As you are aware, we are also making significant investments in technology and some bit of that investment also is capitalized every quarter and that will start getting reflected in depreciation. Accordingly, depreciation for both the non-IT as well as IT CAPEX will be there and this is very well articulated by us in earlier calls. Some of the opex items are directly linked to the business also- like any kind of BC cost will be linked to the BC business/collections and all that. From an opex perspective, that is on our expected lines. However, in the current quarter because the income got impacted, which we have spoken about in the earlier part of the call - our cost to income ratio for the quarter is elevated. We feel that from Q2 onwards, this cost to income ratio will also get rationalized and will come within the guidance that we have been providing to the market.

B. K. Divakara: Actually, as compared to Q1 of FY24, staff cost is almost flat.

Moderator: Thank you. Next question is from the line of Prabal from Ambit Capital. Please go ahead.

Prabal: Sir just one question. Our cost of fund is already closer to 6% now. Is the pursuit of growth not hurting our competitive advantage because at 6% cost of funds, if you are trying to get and still maintain a margin of 4.5%, you're essentially looking for a 10.5%-11% retail customer. So, while you can maintain the margin for few quarters, but eventually that will also translate into higher credit cost. So, why not slow down the growth, build more robust deposit franchise, have competitive advantage and then move further.

Satish Gundewar: Prabal, if you see our investor presentation, almost 50% of the book is gold loans and there our yields are good enough say 11.6% -11.8% is the kind of range that we get on the gold loan book. In the SME space, we get close to 11%. In the retail, also we are in the range of 10.5% to 11%. In retail, we are present only in handful of products like CV/CE, inventory funding, credit cards etc. Corporate book yields will be in the range of 9%-9.5%. Therefore, from an overall yield perspective, our gross yield will still be pretty healthy. This quarter was impacted for the reasons stated earlier, but otherwise from Q2 onwards, we will be going back to the same trajectory of 11.6% kind of yields. From that perspective, we should be able to maintain the NIMs between 4.5% and 4.8%. From a cost of funds perspective, I explained earlier that we have multiple sources of funding and we judiciously use the various instruments available at our disposal so that the overall growth is not impacted by non-availability of funds. To that extent, I think we will manage the NIMs appropriately.

Prabal: But as we are moving from this year onwards, since our target is to move away from gold towards more retail and other products that could have some bearing on our fee and at the same time as cost of funds are going up, then we have to move down the risk curve in order to maintain our accounts?

Satish Gundewar: For the current financial year in the overall pie of my advances, we do not expect gold share to reduce significantly. It will continue to be in this range of 47%-50% and that gives us a good yield. For the next financial year as the year progresses, we will start giving guidance in terms of what is the mix that we are looking for.

Moderator: Thank you. Next follow-up question is from the line of Mona Khetan from Dolat Capital. Please go ahead.

Mona Khetan: I just wanted to check on this loan mix. When we look at other retail, which is retail except gold, there has been a sequential decline of about 12% in the book, so if you could just highlight which segments or what is contributing to that.

Satish Gundewar: Mona, where are you able to see a dip?

Mona Khetan: So, if I could refer to your presentation the loan mix which is on slide 15, so the Rs. 3,541 crore of retail book, if I compare it with what you had shared in the Q4 FY24 presentation which was about 12% lower essentially. So, what has led to this? So, last quarter this quantum was about Rs. 4,029 crore and it has fallen to Rs. 3500 crores. So, what has led to this decline sequentially? What segments are contributing to this?

Satish Gundewar: The agri and MFI book, which was about Rs. 1500 odd crores in Q4, has come down to Rs. 1300 crores - That is one reason. From a percentage perspective, it looks high because the overall retail composition is small. We had earlier also spoken that we have slowed down disbursements in unsecured personal loans. Therefore, we will have some downward trajectory especially on the unsecured book.

Mona Khetan: So, it's fallen by about Rs. 500 crores, so Rs. 200 crore you explained is because of the agri and MFI book and what about the rest of Rs 300 crore? Is it mainly the other unsecured pieces like credit card/PL? But those are too small to be having such a sharp decline.

Satish Gundewar: We have done some reclassification in terms of the LAP book from retail to SME. We have now internally bifurcated the entire LAP as SME and retail. It is a reclassification.

Mona Khetan: How much of the book has moved from other retail to SME, just to understand this better?

Satish Gundewar: I do not have that specific number with me at the moment.

Mona Khetan: And just one more. So, on the loan to deposit ratio, what is our comfort level as on today?

Satish Gundewar: CD ratio if you see, currently it is comfortable because overall our deposits for last 2 quarters have been growing better than the advances. We are currently at a CD ratio of 83.89%. Our guidance was also earlier that we are comfortable up to 85% of the CD ratio and we will continue with that guidance.

Mona Khetan: So, 85% would be the peak on this front because earlier I think at some point it was also 90%**.** So, just wanted to understand this better.

Satish Gundewar: Yes. Last 2 to 3 quarters, we have seen a moderation in the CD ratio and that has been our stated intent as well, but one or two quarters aberrations can happen. Our general intent is to be in the range of 85% but below 90%.

Moderator: Thank you. Next question is from the line of Dhaval from DSP. Please go ahead.

Dhaval: Sorry, I joined a little late and I missed the opening comment, but I just wanted to understand what's the path that from the current levels you will be able to reach 4.8% margin guidance that you have given on the upper end of the band. I am able to understand 4.5% - but just where we started the year, what will be the path to that 4.8% - that you have as the upper end of your band.

Satish Gundewar: Dhaval, I explained this in the initial part of my call that the current quarter has got impacted because of the regulatory changes in terms of the penal interest moving to penal charges. That had kind of almost 40 bps impact for us on the yield. Apart from that, we had elevated slippages and interest reversals in the current quarter compared to our normalized trends. Both these factors probably will not be there from Q2 onwards and that will bring our gross yield to the normalized state that we were reporting earlier. It will help us to reach to that 4.5% to 4.8% kind of a NIM pattern that we are targeting.

Dhaval: So, in this next quarter, the yield has to move closer to 11.6% or so. Is that the normalized level that you talked about like what is the normalized yield adjusted for these two factors?

Satish Gundewar: Yes, generally it has been in the range of 11.6% -11.8% at an overall portfolio level. We do not see that there will be any major change in the mix of the portfolio in quarter or the full year also. To that extent, we should be able to deliver that kind of gross yield for the portfolio.

Dhaval: So, basically from where we are, we are looking at about 40 odd bps of jump in the yield and cost of funds remaining around these levels directionally.

Satish Gundewar: There will be deposits, which will get repriced. To that extent, there will be marginally upward trajectory in the cost of funds. However, from a yield perspective, what you said is right that the 40 bps went only because of regulatory reasons. In addition, we do not foresee that kind of slippages in the next quarter. Not only that, the other lever that we have is the recoveries from the written off accounts, which is also likely to improve going forward from Q2 and which will have an impact on the overall provisioning. There are 2-3 things, which actually has impacted this quarter and probably from next quarter onwards, we will not have those one-offs and hence we should be able to go back to our earlier trajectory.

Dhaval: And just one last thing on this is the upper end for that to play out, you have to see cost of funds to stabilize, right? Otherwise, mathematically I am unable to see 4.8% even assuming these 40 bps of normalization and some bit of cost of fund increase. The 4.8 looks very elusive right now, so would that be a fair - like it is as you're predicting the fact that the rate has to peak, is that a broad thought process that you have in the 4.8 guidance?

Satish Gundewar: The entire book also gets repriced and because the major product that we have is gold loan, which is largely not a very long term kind of a product. If we see elevated interest cost, then we also have the ability to reprice our advances in both SME as well as gold. Therefore, to the extent of repricing, that will help us in terms of maintaining our NIMs.

Moderator: Thank you. Next question is from the line of Neel Mehta from Investec Capital. Please go ahead.

Neel Mehta: Sir, just a simple question following up from the previous one. If we are structurally going to stop recognizing penal interest as part of gross interest income, shouldn't our NIM settle 40 bps lower on a structural basis going forward because we are no longer recognizing that as interest and that's getting passed in fees?

Satish Gundewar: Neel - 40 bps is a ballpark number that we have given, but the overall penal interest depends on multiple factors largely being the SMA book. If the SMA book falls down, then that incidence of the penal interest will also actually fall down in the normal course of business. If the SMA book finds a lower trajectory that is good from an overall Bank perspective, but what you say is right - in terms of that incidence of income, which was part of the interest income now will be part of the fee income. From an overall P&L perspective, it will get shifted from the net interest income to fee income and ultimately it will be part of my ROA. Therefore, overall from an ROA perspective, it does not get impacted adversely because it will just move from one line to other line. Considering these aspects, we will look at the product construct as well. We are studying this closely - all the businesses in terms of this movement of penal interest to penal charges and possibly, we will make certain changes in the various product construct so that overall NIM is maintained.

Neel Mehta: So, broadly ROA neutral, but from a NIM perspective could be structurally lower if your SMA accounts are decreased?

Satish Gundewar: If my slippages are reduced, in which case it will be NIM accretive because all the interest income just suspended, that will come back. NIM is actually a very complex thing. There are 7-8 factors, which actually impact the NIM, so it is very difficult for anybody that way to really say exactly what is going to be the NIM. However, the guidance that we give is a general one based on what is our business model, what is the general yield on various businesses that we generate, what is our expectation about SMA as well as slippages etc. What we are talking about is on an overall basis for one full year, that is, for FY 25 we should be in the range of 4.5% to 4.8%.

Moderator: Thank you. Next question is from the line of Chinmay Nema from Prescient Capital. Please go ahead.

Chinmay Nema: Just wanted to double check on the slippages, not getting into the specifics of the loan but because the elevated numbers are driven by a few loans. So, is it that you are seeing some kind of stress building up in a certain industry or are they from a particular vintage? Is there anything to read into it? That is the first question. And the second thing is if you could talk about what kind of early warning signals do exist for such accounts, what kind of visibility do you have on the asset quality of such large loans or if they come as a surprise to you as well?

Satish Gundewar: There is no pattern as such, so I do not think that one should read that if there are elevated slippages - it is a question on the overall portfolio. These are only handful of accounts, especially on the corporate banking - as I said that we are rejigging this entire business, one or two such accounts will fall into NPAs. However, portfolio kind of a trend is not there. A handful of accounts in SME and one or two accounts in corporate banking that have slipped into NPA, will get normalized going forward. We do not see a trend as such emerging. We have small slippages in the Agri and MFI book also, but our book is not very large enough to really cause any dent in the overall profitability or NPAs.

Moderator: Thank you. Next follow up question is from the line of Pruthul Shah from Anubhuti Advisors. Please go ahead.

Pruthul Shah: Just want to directionally understand that now that the penal interest is not categorized within the interest income and it is in the other income, but directionally, whether the amount that we are going to earn, whether that is remaining same or that is getting impacted and to how much extent. If you just give a broader color on the same?

Satish Gundewar: It is too early to really say whether it will have a negative impact on the overall P&L. We are analyzing this and because it is just the first quarter where these regulatory changes happened, similar kind of a trend for other banks will also be seen. We are studying in terms of the overall penal charges collected versus what was the penal interest - trying to study that basis the SMA trends, what was our trajectory of earning penal interest versus the penal charges that we are collecting. We are analyzing that and if required, we will make necessary product changes or changes into the penal charges structure so that we do not loose any such income.

Pruthul Shah: So, broadly, the understanding it in case we are losing, we will reprice the products and gain back the profits that we are earning in the earlier period, right?

Satish Gundewar: We do not expect that this will be a negative kind of a surprise for us. This is just the first quarter and we will study product by product, segment by segment and we will do course corrections in that.

Moderator: Thank you. As there are no further questions from the participants, I'd now like to hand the conference over to Mr. Satish Gundewar for closing comments.

Satish Gundewar: Thank you everyone for joining this call and patiently being part of this call for all through one hour and it is very nice to speak with all the analysts every quarter. We will see you again next quarter. Thank you very much.

Moderator: Thank you. On behalf of YES Securities, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.